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Management Characteristics and Audit Opinion Shopping

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Abstract

The present study assesses the relationship between management characteristics (management entrenchment, narcissism, CEO overconfidence, board effort, real and accrual-based earnings management) and audit opinion shopping in the Tehran Stock Exchange-listed firms. In other words, this paper seeks to answer the question "whether management characteristics can exert a favourable effect on audit opinion shopping or not." For this study, the multivariate regression model is used for hypothesis testing. Research hypotheses are examined using a sample of 1309 observations on the Tehran Stock Exchange during 2012-2018 and by employing the panel data-based multivariate regression and fixed-effects model. The results show a negative and significant relationship between management entrenchment and managers' overconfidence and audit opinion shopping. A positive and meaningful relationship was observed between management narcissism, real and accrual-based earnings management, and board effort and audit opinion shopping.

Keywords: Management Entrenchment, CEO Overconfidence, Real and Accrual-based Earnings Management, Audit Opinion Shopping, Board Effort

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1. Introduction

One of the essential information resources in the decision-making of managers, creditors, regulatory bodies, financial analysts, and the government is the annual financial statements. Due to a potential conflict of interests with other information users' groups, these suppliers may disclose information that misleads them. Thus, two information resources that attracted users' attention are audited financial statements and audit reports. It can be said that financial statements are an essential instrument for making a connection between auditors and financial statement users (Sardari et al., 2021). The audit report can increase trust in economic practitioners' and investors' financial statements and decision-making. Such a report is the only tool for transferring audit findings of the usefulness and reliability of financial reports, through which the auditor expresses his professional opinion about financial statements. Auditors play a significant role in exploring financial fraud, predicting the chance of bankruptcy, and the outbreak of unexpected crises. They should provide both the clients and the users of the financial statements with an independent professional opinion (Munoz-Izquierdo, 2018).

Auditors' opinion relies heavily on their behaviours during performing duties. There is no doubt that auditors' intrinsic and acquisitive characteristics and performances contribute to audit reports' quality. Some factors strengthen or weaken such features. Davidson and Neu (1993) define audit quality as the auditor's ability to explore and report significant distortions and discover manipulation. Controlling the contributing factors to performance and auditor's characteristics can affect the credit of audit reports and the quality of investment decisions and subsequently prevent investors' harm. Because according to the stewardship hypothesis, the aim of inviting independent auditors to a firm is to protect all firm beneficiaries' interests.

On the other hand, scholars believe that managers' experiences, personality characteristics, and moral values contribute significantly to the decisions and affect the financial reporting quality (Buchholz et al., 2019). Hence, it is believed that narcissistic managers are more likely to use the phenomenon of auditor opinion shopping to preserve the high performance (Patel and Cooper, 2014; Gerstner et al., 2013; Aktas et al., 2016; Engelen, Neumann and Schmidt., 2016; Petrenko et al., 2016; Zhu & Chen, 2015). The conducted studies show that managers often embark on earnings management to deliver their performance better. Narcissistic and overconfident managers also do more earnings management than others to improve their performance. Hence, they search for those auditors who help them conceal their illegal actions and present tailored financial statements (Buchholz et al., 2019).

Hiebl (2014); Morelli and Lecci (2014); Naranjo-Gil, Maas and Hartmann. (2009); Abernethy, Bouwens and van Lent (2010); Harlez and Malagueño (2016); Su, Baird and Schoch. (2015) indicate that managerial features, including narcissism, overconfidence, experiences, and expertise, are the leading factors that affect the controlling systems of accounting and the management of earnings. In other words, the CEO has the power to make increase/decrease the reported earnings (Davis, DeZoort and Kopp., 2006; Feng et al., 2011; Graham, Harvey and Puri., 2013). Since the managers' characteristics play a significant role in selecting auditors, the present study assessed whether the managers' factors, including real and accrual-based earnings management, managers' entrenchment, overconfidence, narcissism, and board effort, could contribute to auditor opinion shopping. The present study was carried out in developing countries, like Iran, with an extremely competitive audit market. It is expected to find a significant relationship between management characteristics and audit opinion shopping because of recent studies (e.g., Lennox, 2000; Chen, 2020). Audit opinion shopping show that firms participate in audit opinion shopping by changing auditors, and managers often are likely to vary the opinions of audit firms' partners due to the following reasons:

The limited investors' support and the non-favourable performance of laws (Allen, Qian and Qian, 2005; Chen et al., 2013), so firms are not willing to hire high-quality auditors (DeFond Park, 2001; Wang, Wong and Xia., 2008).

The audit market's scatteredness causes the audit market competition to be high, so firms seek those auditors who are more motivated (Yang, 2013; Wang, Wong and Xia., 2008).

These factors give the clients bargaining power against auditors and make keeping the customers difficult for auditors. Therefore, it is probable that audit firms direct the discrepancies with the client toward the client's needs; hence, despite different costs, audit opinion shopping may occur because managers are willing to make their opinions in line with that of the auditors. Moreover, among other reasons that motive auditors to shop opinions, we can refer to auditors' low litigation risk. Although legal restrictions may lead to audit violations of the audit firms, in most cases, such bans are not severe (e.g., in most of the issues, auditors pay a sum equal to the audit fee). In other instances, the supervisors would revoke their audit license or halt. Still, in most cases, the audit firms' partners bypass such bans (Chen et al., 2015). In the upcoming sections, we will discuss the theoretical principles, hypothesis development, methodology, research variables definitions, and data analysis and discuss the discussion and conclusion in the last section.

2. Theoretical Foundations

An audit report is an essential tool to ensure companies' reliability and other information (Khani and Rajabdorri, 2019). Financial statements are likely biased, so auditors will be overseers to reduce such bias. Therefore, auditing financial statements are considered one of the crucial laws. However, managers significantly impact auditors' recruitment and change and can replace previous auditors with auditors who issue a favourable management comment to maximise their benefits (Lennox, 2000). Auditor change has grasped much attention in recent years. Treasury (2008) states that auditors' changes are rapidly increasing, and there is still no obligation to disclose the reason for the difference. Scholars such as Johnson and Lys (1995), Woo and Chye Koh (2001), and Hudaib and Cooke (2005) found that the likelihood of auditors changes increases following the issuance of a qualified report. It is assumed that companies change their auditors after receiving the qualified report, which is necessarily accompanied by a decrease in audit quality. This can overshadow the professionalism and independence of the audit and have unintended consequences. Audit opinion shopping means changing the auditor by the client to receive an improved audit comment from the new auditor. Chen, Francis and Hou (2019) define audit opinion shopping as an action the auditor's clients takes to replace the auditors willing to provide a more favourable audit report.

In the United States, the Securities and Exchange Commission has stated that audit opinion shopping is a practice that helps the auditor achieve his reporting objectives, even if it undermines the report's credibility (Archambeault and Dezoort, 2001). Audit opinion shopping is an issue that is inherently difficult to measure because there is so much incentive to hide it in a favourable audit report (Archambeault and Dezoort, 2001). Lennox (2000) showed that managers with high power would be successful in audit opinion shopping. For decades, lawmakers have been concerned for decades (US Senate, 1976; SEC, 1988; EC, 2010). Despite the importance of the issue, DeFond and Zhang (2014) state that audit opinion shopping is essential.

Therefore, the management will change the auditor if the current auditor does not want to provide the report favoured by the manager. The auditors may also accept a higher fee to mention the business unit manager to prevent their replacement. Zhang (2017) found an abnormal change in audit costs other than ignoring the positive or negative amount of audit costs indicates the audit opinion shopping and other similar actions. Newton et al. (2016) found that competition in audit opinion shopping intensifies and facilitates the auditor's reports. Large audit firms are more likely than the smaller audit firms to expose the firm's problems, so audit opinion shopping will be less likely to occur in companies audited by the large audit firms. Because of their reputation in society, they will have more motivation to avoid being criticised by the community. The auditor's tenure is also one factor affecting audit opinion shopping. The auditor's long presence in a company due to his financial and economic dependence on the company increases the possibility of undermining the auditor's independence. The auditor cannot withstand management pressures, and the audit opinion shopping will be more likely. Chen et al. (2015), using the model Pulic (2000), examined the audit opinion shopping at the partner level. The results showed that companies would be successful in audit opinion shopping at the partner level. Audit opinion shopping at the partner level will be more likely when the company has an economically particular position economically. Therefore, managers commit to audit opinion shopping to improve their performance and function.

2.1. Hypothesis Development

In recent decades, the phenomenon of opinion shopping has been a significant concern for regulators, so it has been considered in previous research (e.g., Chow and Rice, 1982) importance. Audit opinion shopping is when the clients look for auditors who provide a mutual and favourable comment with a high-quality audit report and present their favourable or unfavourable audit report. Companies that commit audit opinion shopping can eliminate the audit comment and even adjust it as they wish, preventing a report's issuance with an unfavourable comment (Ghaznavi Doozandeh et al., 2021). On the other hand, according to the theory, the audit profession was created to protect shareholders' interests against managers. Generally, the financial statement users also make the most critical economic, investment, and credit decisions based on the professional auditor's comment about management's financial information. Therefore, the accuracy of this report is of great importance. The phenomenon of opinion shopping, which has attracted particular attention in recent years, leads to the fact that the independent audit reports accuracy becomes a severe business. Because of this phenomenon, managers look for auditors who can change their professional comments according to their wishes and receive a customised audit report that shows the business's favorability. He, Pittman and Rui. (2016) states that audit market competition and low litigation risk have led auditors to cooperate and sell votes to clients. Today, auditors do not have much legal responsibility for their audit process, and sometimes, although they may face legal prohibitions, in most cases, these prohibitions are not severe. In this regard, Gul, Wu and Yang. (2013) argue that audit firms' partners are different in terms of expertise, ability, risk assessment, knowledge of the client's activity, and ethical standards, leading to different audit quality. In other words, these audit partners are more inclined to provide favourable comments about earnings management. Earnings management refers to its ability to manipulate its profits to improve its financial performance.

Management can use the information and privileges at its disposal to inform and encourage stakeholders about the business unit (Healy and Wahlen 1999). They generally improve earnings quality and financial reporting (Gaio and Raposo, 2011). It would be unethical for management to exercise its authority to obtain personal benefits, such as raising its position and increasing its rights and interests (McManus, 2018; Harris and Bromiley, 2007). Such earnings management practices can be detrimental to businesses (Kaplan, 2001).

The National Commission on Fraudulent Financial Reporting (1987, pp. 5, 6) states that earnings management practices can mislead financial statement users and sometimes lead to risky activities such as fraudulent financial reporting (Merchant and Rockness 1994). Accordingly, earnings

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management practices are probably the most ethical issue facing the auditing profession (van Scotter and Roglio, 2020). Besides, recent studies indicate a significant relationship between managers' personality traits and managers' moral misconduct (Buchholz et al., 2019), leading to a decline in financial auditing and reporting quality. Especially after the recent financial scandals of large auditing firms, this is one of the most important reasons for distrust in the auditing profession.

Organisational results, such as earnings quality, reflect CEOs' business units' decisions and result from CEOs' characteristics (Hambrick and Mason 1984). Managers' features, such as tenure, management team stability, gender, ability, and inherent characteristics, are the most critical factors influencing their decisions (Bromiley and Rau 2016; Carpenter, Geletkanycz and Sanders, 2004). Amernic and Craig (2010) state that CEO narcissism and overconfidence are among the most critical personality traits that affect the quality of business profits. Therefore, narcissistic CEOs make vague choices to make the company's financial situation seem in the best possible way. By improving and weakening the company's performance, they try to gain a strong position in the company and others' approval and admiration (Campbell et al., 2000; Horvath and Morf, 2010). Concerning the narcissism and other characteristics of managers, including earnings management, overconfidence, and entrenchment, it is argued that trying to make the CEO look good can cause severe damage to business units (Lubit, 2002) because the strength of management, like other management features, can have positive and negative consequences to companies. According to Salehi and Moghadam. (2019), Seifzadeh et al. (2020), and Salehi, Mahmoudabadi and Adibian, (2018), entrenchment management refers to situations when the CEO is simultaneously the chairman or vice-chairman of the board and can make and implement decisions. Therefore, when making a wrong decision and following its shareholders' wishes, he takes refuge in the positions he holds in the company (Salehi and Moghadam., 2019). These management decisions can sometimes benefit shareholders and businesses in the long run, but in the short run, discourage short-term investors (Seifzadeh et al., 2020).

Related studies (e.g., Olsen, Dworkis and Young. 2014; Capalbo et al., 2018) showed a positive and significant relationship between managers' narcissism and fraudulent financial statements such as earnings management; narcissistic overconfident managers tend to show their performance in a good way. They, therefore, offer financial reports financially embellished (Buchholz et al., 2019).

Experimental studies about audit opinion shopping indicate that audit opinion shopping occurs in each period (before and after the auditor). Smith (1986) believes that one of the concerns about audit opinion shopping is that the substitute auditor's comment differs from that of the previous auditor. Chow and Rich (1982) argue a significant relationship between auditors switching and audit opinion shopping. Change in the auditor's reports may result from a change in the client's financial position or a change in the auditor's judgment, mainly when an auditor switching occurs. Osma et al. (2019) found that audit opinion shopping through a change of audit firm is successful but shopping a comment at the partner level is unsuccessful. Capalbo et al. (2018), Nasir et al. (2018), and Hsieh Bedard and Johnstone. (2014) showed a significant relationship between managers' narcissism and their overconfidence with earnings management and fraudulent financial reporting.

Moreover, Kontesa, Brahmana and Tong. (2020), following Capalbo et al. (2018); Nasir et al. (2018); Hsieh, Bedard and Johnstone. (2014) showed a positive and significant relationship between managers' narcissism and earnings management. Therefore, considering narcissistic and overconfident managers' efforts to achieve more reputation. We expect a significant relationship between managers' narcissism and overconfidence by opinion shopping compared to non-narcissistic counterparts. Similarly, narcissistic managers assert their power to undermine corporate governance (Grant and McGhee, 2013). Also, narcissistic managers seek more compensation to ensure that they appear important (Buchholz et al., 2019). Therefore, such managers also tend to use narcissistic managers to choose the management of other departments (Hayward and Hambrick 1997). They seek to reduce the board of directors' performance and control in companies (Zhu and Chen, 2015). Therefore, such managers try to put themselves in the chairman or vice-chairman position of the board of directors to control the company's situation by fortifying the management.

Marquez-Illescas, Zebedee and Zhou. (2018) showed that disclosing information in companies with narcissistic CEOs is much more limited and biased than other companies.

Therefore, according to what has been said, the hypothesis is as follows:

Research Hypothesis: There is a significant relationship between management characteristics and audit opinion shopping.

3. Research Methodology

The statistical population of this paper includes all listed firms on the Tehran Stock Exchange during 2012-2018. The systematic elimination method is used for sampling, and the statistical sample is selected after applying the following conditions:

The firm should be enlisted entire date of the study and should not be in service industries.
The final sample is obtained and depicted in Table 1.

Table 1. The number of firms in the statistical population

Description	Eliminated firms in total periods	Total No. of firms
Total listed firms on the Tehran Stock Exchange		445
Eliminating financial intermediaries, financial supply, insurance, and investment firms	88	
Firms with more than six months of transaction halt	111	
Eliminating firms entered the Stock Exchange during the study period	57	
Eliminating due to lack of access to information	113	
Statistical population		187

3.1. Data Collection and Method

The primary data for hypothesis testing were collected using the information bank of Tehran Stock Exchange, including Tadbir Pardaz and Rah Avard-e Novin, and the published reports of Tehran Stock Exchange via direct access.

3.2. Data Analysis Method

A multivariate linear regression model is used for hypothesis testing. The frequency distribution table is used for describing data. At the inferential level, the F-Limer, Hausman test, normality test, and multivariate linear regression model are used for hypothesis testing.

3.3. Research Model

Model (1) is used to test the hypothesis as follows:

$$\begin{aligned} \text{shop}_{it} = {} & a_0 + a_1 ME_{it} + a_2 OVERCON_{it} + a_3 CEONAR_{it} + a_4 REM_{it} + a_5 AEM_{it} + a_6 BEFD1_{it} \\ & + a_7 RET_{it} + a_8 age_{it} + a_9 GRW_{it} + a_{10} ROA_{it} + a_{11} LEV_{it} + a_{12} size_{it} + a_{13} MTB_{it} \\ & + a_{14} HHI_{it} + a_{15} AIS_{it} + a_{16} BUSY_{it} + a_{17} Year_{it} + a_{18} Industry_{it} + \varepsilon_{it} \end{aligned}$$

Where

Dependent Variables

Shop: opinion shopping is measured as follows:

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Opinion shopping is a dummy variable. If the client has changed his auditor and received an unqualified report 1, otherwise, 0, and if the employer has replaced his auditor with a low-quality one. The firm has replaced its auditor with a lower disclosure quality rank by quality here.

Independent Variables

ME: Based on Salehi, Mahmoudabadi and Adibian (2018):

1. Managerial ownership: the number of shares available to the CEO divided by total published shares;
2. CEO tenure: the number of years the CEO has been consistently at the CEO position of the firm under study;
3. CEO duality: if the CEO is the director or vice-chair 1, otherwise, 0
4. Board compensation: the amount of compensation assigned to the Board of Directors approved by the Annual General Meeting;
5. CEO change: if the auditor has changed during year 1, otherwise, 0; and,
6. Board independence: the number of unbound board members divided by total board members.

This paper uses the exploratory factor analysis (using the principal component analysis) to calculate the audit quality variable. Factor analysis is a multivariate statistical method for classifying and recognising the present structures among research data. Such a statistical approach is used for two reasons.

The information related to the 6 factors of corporate governance with an influence on motivation and capability of a firm is collected for each year-company. The linear correlation coefficient matrix of the above six variables is extracted for each year, and finally, the exploratory factor analysis is carried out. The variable of management entrenchment is achieved from the total weight multiplication of the factor's numerical value of the related element.

Over.Con: In this paper, the index of surplus investments in assets is used to measure managers' overconfidence as follows:

According to Schrand and Zechman (2012), this index shows surplus investments in assets. It is achieved from the residuals of total assets growth regression to sales growth computed separately per industry year. Should the regression residual be larger than 0, this index equals 1; otherwise, it would be 0. This index is used because managers invest more in their peers in firms where assets grow higher than sales growth.

$$Assets.Gr_{it} = a_0 + a_1 sales.Gr_{it} + \varepsilon_{it}$$

CEO-NAR:

There are two criteria for measuring managerial narcissism:

Cash compensation index: narcissistic managers in organisations usually ask for higher cash compensations and stabilise their positions in organisations in this way (O'Reilly et al., 2014). The cash compensation of managers is calculated by dividing the approved cash compensation in general assembly meetings into the fiscal year's total payments.

CEO signature: recent studies show that signature size is a measurement method for narcissism (Ham et al., 2017; 2018). The previous studies on psychology have proved that signature is a method for showing power in individuals (e.g., Kettle and Haubl, 2011; Bryan, Adams, and Monin, 2013; Chou, 2015). In this regard, psychology also shows a significant relationship between narcissism and the signature. Zweigenhaft and Marlowe (1973) indicate that people with high confidence have larger signatures than others. Other studies show that signature size can significantly demonstrate individuals' confidence and dominance (Jorgenson, 1977; Koole and Pelham, 2003). Self-efficacy, dominance, and high overconfidence are among the salient features of narcissistic people measured with the signature indicator. Since people are not publicly aware that their signatures show their narcissism, the use of signature, compared to other tools like questionnaires through which an individual can evade answering questions correctly, is a more suitable tool (Rudman, Dohn, and Fairchild, 2007). To ensure this method, it is shown that a sample of graduated students and offer a significant relationship between signature and existing criteria in the provided questionnaire by Ames, Rose, and Anderson (2006). Moreover, Ham et al. (2017) posit that signature size is suitable for narcissism because they find a positive and significant relationship between signature size and narcissism score. Hence, following the previous studies, in the present study, the signature variable is used as an index for CEO narcissism (e.g., Davidson and Smith., 2015; Ham et al., 2017, 2018; Zhou, 2017; Bushman et al., 2018).

REM: Abnormal cash flow (EM_CFO), abnormal cost (EM_PROD), and abnormal discretionary costs (EM_DISX) are used for measuring sales firm control, production control, and discretionary cost control. Equation (2) is used for estimating abnormal cash flow of the firm (EM_CFO), equation (3) for estimating abnormal production cost of the firm (EM_PROD), and formula (4) is used for estimating the abnormal discretionary cost of the firm (EM_DISX) (Cohen, 2010; Zeng, 2010; Lin, 2013). In this paper, eq. (4) is used for estimating real earnings management.

$$\frac{CFO_{i,t}}{A_{i,t-1}} = \beta_1 \frac{1}{A_{i,t-1}} + \beta_2 \frac{S_{i,t}}{A_{i,t-1}} + \beta_3 \frac{\Delta S_{i,t}}{A_{i,t-1}} + \delta_{i,t} \tag{2}$$

$$\frac{PROD_{i,t}}{A_{i,t-1}} = \beta_1 \frac{1}{A_{i,t-1}} + \beta_2 \frac{S_{i,t}}{A_{i,t-1}} + \beta_3 \frac{\Delta S_{i,t}}{A_{i,t-1}} + \beta_4 \frac{\Delta S_{i,t-1}}{A_{i,t-1}} + \delta_{i,t} \tag{3}$$

$$\frac{DISX_{i,t}}{A_{i,t-1}} = \beta_1 \frac{1}{A_{i,t-1}} + \beta_2 \frac{S_{i,t-1}}{A_{i,t-1}} + \delta_{i,t} \tag{4}$$

Si,t: Eq. (2) is the sales income of the firm i in the year t. PRODit in eq. (3) is the firm's total costs i from the product of year t equal to the total costs of products and changes in the inventory.

DISXit: Eq. (4) is total office costs and sales costs of the firm i in the year t. For a similar industry and year, given the equations (2), (3), and (4) to regression residuals (EM_CFO), abnormal cash flow of the firm (EM_PROD), abnormal production cost, and (EM_DISX) abnormal discretionary costs. Since the firms are likely to select a combination of these three ways, we employ Cohen (2010) and Zeng (2012) for making a general real earnings management index:

EM PROXY = EM PROD−EM CFO −EM DISX

AEM: The adjusted model of Jones (1995) is used to calculate discretionary accruals. First, the coefficients are estimated using the Eq. (2):

$$\frac{TA_{i,t}}{Assets_{i,t-1}} = \alpha_1 \left(\frac{1}{Assets_{i,t-1}}\right) + \alpha_2 \left(\frac{\Delta Sales_{i,t}}{Assets_{i,t-1}}\right) + \alpha_3 \left(\frac{PPE_{i,t}}{Assets_{i,t-1}}\right) + \varepsilon_{i,t} \tag{1}$$

After coefficient estimation, non-discretionary accruals are computed using Eq. (3)

$$\frac{NDA_{i,t}}{Assets_{i,t-1}} = \alpha_1 \left(\frac{1}{Assets_{i,t-1}}\right) + \alpha_2 \left(\frac{\Delta Sales_{i,t} - \Delta AR_{i,t}}{Assets_{i,t-1}}\right) + \alpha_3 \left(\frac{PPE_{i,t}}{Assets_{i,t-1}}\right) \tag{2}$$

And finally, for the calculation of discretionary accruals, we have:

$$\frac{DA_{i,t}}{Assets_{i,t-1}} = \frac{TA_{i,t}}{Assets_{i,t-1}} - \frac{NDA_{i,t}}{Assets_{i,t-1}} \tag{3}$$

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In the above equations, TA is accruals, Assets is total assets, Sales is income, AR is accounts receivable, and PPE is gross properties, machinery, and instrument. NDA is non-discretionary, and DA is discretionary accruals. In this paper, the following formula is used for computing accruals, which is referred to as profit and loss:

Accruals = profit before unpredicted items – operational cash flow

Most previous studies utilised DA to measure earnings and audit quality (Shiue, 2012). This paper uses a proxy for audit quality using the DA because it presents a degree of negotiations related to audit setting decisions. Abnormal accruals of performance setting estimate the size of DA.

BEF: board effort equal to the number of sessions the board held during a year.

Control Variables

LEV: total liabilities to total firm assets;

Age: firm age that is equal to the time interval between data of establishment;

Size: equals to the natural logarithm of total firm assets;

AIS: auditor specialisation in the industry i in the year t that the market share is used as an index for auditor industry specialisation in this paper. The more the auditor's market share, the more industry specialisation and auditor experience than other competitors. Auditor market share is computed as follows:

Eq. (1)

$$\frac{\textit{total assets of all employers of each special audit firm in special industry}}{\textit{total assets of all employers in special industry}}$$

In this paper, those firms are considered industry specialised that their market share, namely the so-called ratio, is more than [(total existing firms/1)*1.2]. After calculating an audit firm's market share, should the obtained values be more than the above equation's value, the audit firm is specialised in the mentioned industry. Hence, an audit firm is industry specialised 1; otherwise, 0 will be assigned (Habib and Bhuiyan, 2011).

ROA: equals to net profit ratio divided by the book value of equity;

Ret: equals the market value of the current year minus that of the previous year divided by the market value of the last year

GRW: sales growth, is equal to total sales of the current year minus sales of the previous year divided by sales of the last year;

Busy: if the end of the fiscal year is January 20, equals 1; otherwise, 0;

Mtb: market value to book value of equity

Hhi: auditor's concentration: Similar to the previous studies (Eshleman and Lawson, 2017; Huang Chang and Chiou, 2015; Newton, Wang and Wilkins, 2013; Kallapu, Sankaraguruswamy and Zang, 2010), this paper has used the index of auditor concentration. The lower the value of this index, the higher the concentration and competition in the market. Boone, Khurana and Raman (2012) and Kallapur, Sankaraguruswamy and Zang (2010) state that this index's results can be considered inversely for audit market competition. Choi and Zéghal (1999) conclude a negative and significant relationship between concentration and competition in the audit market. In this paper, similar to the study of (Marquez & Steven, 1997), this index is used in the industry section. Moreover, similar to the study of Kallapur, Sankaraguruswamy and Zang (2010), this index is multiplied by (-1) to be used as an index for audit market competition, not concentration. This index is computed as follows:

$$HHI = \left(\sum_{i=1}^{k} (\frac{S_{it}}{S_{jt}}\right)^2 * (-1)$$

K: the number of auditors in the related industry
s: total audit fee received by the auditor in the related industry
S: total audit fee received by auditors in related industry
Year: dummy variable of the year; and,
Industry: dummy variable of industry

3.4. Data Analysis

In this paper, model 1 is used to assess the relationship between management characteristics and audit opinion shopping. Further, the present study has inserted the panel data method.

Table 2. Descriptive statistics of the variables

Variable	Mean	Std.dev	Min	Max
Shop	0.54	0.478	0.000	1.000
Me	0.467	0.526	0.007	4.561
Overcon	0.468	0.499	0.000	1.000
Ceonar	0.086	0.063	0.000	0.186
Rem	0.022	0.033	0.000	0.359
Aem	0.105	0.119	0.000	1.116
Bef	14.730	5.424	1.000	60.000
Rest	0.747	0.435	0.000	1.000
Grw	0.287	0.794	-1.000	7.939
Age	39.302	13.186	8.000	67.000
Size	14.302	1.542	10.533	19.774
Lev	0.612	0.259	0.061	2.627
Mtb	4.344	7.510	-59.594	53.464
Hhi	0.205	0.219	0.000	1.000
Roa	0.104	0.163	-1.063	1.242
Ais	0.434	0.495	0.000	1.000
busy	0.684	0.465	0.000	1.000

Unit Root

By assessing all variables' unit roots, all are at the stationary level. The obtained LM statistic for each variable is reported in Table 3.

Collinearity Test

According to Table (4), there is no collinearity among variables by assessing collinearity among variables, and they are independent.

Table 3. The results of the Hadri test

Variable	Sig.		Variable	Sig.
Shop	0.541		ME	0.840
Overcon	0.231		Ceonar	0.298
REM	0.225		AEM	0.350
BEF	0.002	0.998	Rest	1.000
GRW	0.215		Age	0.215
Size	0.254		LEV	0.187
MTB	0.548		HHI	1.000
Roa	0.875		AIS	0.665
Busy	0.215			

Table 4. The results of the Collinearity

Model (1)		
variable	**VIF**	**1/VIF**
Roa	1.73	0.576
Lev	1.70	0.587
Size	1.60	0.624
Me	1.39	0.719
Ais	1.38	0.725
Rem	1.10	0.906
Aem	1.09	0.919
Grw	1.08	0.929
mtb	ret1.06	0.941
Ret	1.06	0.944
Ceonar	1.04	0.957
Age	1.04	0.961
Hhi	1.04	0.962
Busy	1.04	0.962
Overcon	1.03	0.969
Befd1	1.01	0.989
Mean VIF	1.21	

As presented in the table, given the obtained VIF statistic is less than 10 for all variables, there is no collinearity among model variables, so there is no collinearity problem in regression.

Sensitivity Analysis Test

The correlation interval is between -1 and +1, where negative figures show inverse correlation, and positive figures indicate a direct correlation.

3.5. Research Model Estimation

We should first determine whether the F test is pooled or panelled to estimate the model. In case H0 is rejected after performing the F test, the question here is that based on which models of fixed effects or random effects the model is analysable, determined by the Hausman test. Regarding the pooled test results reported in Table 6, the null hypothesis concerning the pooled data is not ejected for the first model at 99%. Hence, the model with panel data should be used to estimate the models' coefficients. According to Table 6, the Hausman test statistic, based on estimation for the models, is equal to 32.91. A probability level of 0.0076 is smaller than χ^2 the table's value, so the null hypothesis is rejected. Hence, the model with random effects is more appropriate for the research model. Regarding Table (6), there is a negative and significant relationship between management entrenchment and managers' overconfidence and audit opinion shopping because the p-values of them are 0.001, 0.041, respectively, lower than the 5% significance level with negative coefficients of 0.034 and 0.005 showing that such a negative relationship exists between these two variables.

Table 5. The results of the sensitivity analysis

	shop	ME	Overcon	Ceonar	Rem	Aem	BEFD1	REST	GRW	AGE	SIZE	LEV	MTB	Hhi	Roa	Ais	busy
shop	1.000																
Me	-0.093	1.000															
Overcon	-0.042	0.063	1.000														
Ceonar	0.014	-0.069	-0.057	1.000													
Rem	0.077	-0.022	-0.042	-0.026	1.000												
Aem	0.068	0.007	0.081	0.010	0.210	1.000											
BefD1	0.015	-0.043	-0.044	-0.016	-0.018	-0.014	1.000										
Rest	0.436	-0.172	0.015	0.042	-0.003	0.027	0.005	1.000									
Grw	-0.053	0.023	0.075	0.002	0.169	0.144	0.002	-0.026	1.000								
Age	-0.011	-0.019	0.004	-0.041	0.072	0.124	0.023	0.005	0.039	1.000							
Size	0.025	0.379	0.037	-0.034	0.025	-0.051	-0.011	-0007	-0.012	-0.038	1.000						
Lev	0.077	-0.242	0.002	-0.016	0.068	0.014	-0.012	0.076	-0.053	0.058	0.078	1.000					
Mtb	-0.036	0.094	-0.035	0.033	0.091	0.010	0.034	-0.102	0.054	0.036	-0.089	-0.074	1.000				
Hhi	-0.039	-0.043	-0.021	0.013	0.053	0.036	-0.040	-0.049	0.005	0.055	-0.031	-0.018	0.098	1.000			
Roa	-0.133	0.258	0.051	0.111	-0.035	-0.002	0.020	-0.107	0.137	-0.101	0.066	-0.607	0.063	0.029	1.000		
Ais	0.049	0.173	0.009	0.027	-0.007	-0.036	-0.001	-0.071	-0.036	0.009	0.493	0.067	-0.012	0.098	0.069	1.000	
busy	0.149	0.122	0.018	0.067	0.063	0.008	-0.038	0.007	0.008	-0.052	0.013	-0.041	0.031	0.008	0.027	0.065	1.000

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Table 6. The results of the model

shop	Coefficient	Std/ Error	t-Statistic	Prob.
Me	-0.034	0.010	-3.32	0.001
Overcon	-0.005	0.002	-2.05	0.041
Ceonar	0.283	0.120	2.36	0.019
Rem	0.179	0.071	2.53	0.012
Aem	0.007	0.003	2.27	0.023
Bef	0.004	0.002	1.71	0.087
Rest	0.371	0.030	12.34	0.000
Grw	-0.019	0.015	-1.27	0.204
Age	0.007	0.003	2.48	0.013
Size	-0.052	0.029	-1.77	0.083
Lev	0.155	0.097	1.59	0.111
Mtb	0.005	0.002	2.56	0.010
Hhi	-0.166	0.099	-1.68	0.093
Roa	-0.031	0.017	-1.75	0.081
Ais	0.004	0.001	4.49	0.000
busy	-0.028	0.006	-4.90	0.000
_con	0.645	0.637	1.01	0.311
Weighted Statistics				
Number of obs		1058		
R-SQ		0.1951		
R-SQ2		0.0973		
P-value model		F (16, 855)=12.65 Prob>F=0.000		
F-Limer		F (186, 855)=5.25 Prob>F=0.000		
Hausman test		Wald chi2(16)=32.91 Prob>chi2=0.0076		

Moreover, there is a positive and significant relationship between managers' narcissism, real and accrual-based earnings management, and audit opinion shopping. Because the p-values are 0.019, 0.012, and 0.023, respectively, less than the significance level of 0.05 with positive coefficients of 0.0283, 0.179, and 0.007, which shows the positive and significant association of these variables and audit opinion shopping. The results show no association between board effort and audit opinion shopping at a 95% level. The p-value of this variable is 0.087, higher than the 5% significance level and lower than the 10% significance level. So a significant relationship between board effort and audit opinion shopping is rejected at 95% level. However, at the 90% level, a positive and meaningful relationship is evident because the coefficient is a positive figure of 0.004. Since the p-value of the model is 0.000, the model benefits from sufficient significance.

Robustness Testing

In this paper, to yield better results and confirm the results of the study, research hypotheses were examined using generalisable least squares, random-effects model, and t+1, the results of which are as follows:

To confirm model 1, the relationship between management characteristics and audit opinion shopping is assessed using the generalisable least squares method. According to the above table results, there is a negative and significant relationship between management entrenchment, managers' overconfidence, and audit opinion shopping based on the generalisable least squares method. That is in line with the results of the primary method because the p-value of them in both approaches is 0.005

and 0.000 less than 5% significance level with negative coefficients of 0.014 and 0.099 that is indicative of a negative relationship between them. Moreover, there is a positive and significant relationship between managers' narcissism, real and accrual-based earnings management, and audit opinion shopping based on the generalisable least-squares method because the p-values of these variables are 0.036, 0.025, 0.032, and 0.025, showing that a positive and significant exists between these variables and audit opinion shopping. Since the generalisable least squares method is in line with the study's primary method, we can confidently express a significant relationship between management characteristics and audit opinion shopping.

Table 7. The results of the FGLS testing result model

shop	Coefficient	Std/ Error	t-Statistic	Prob.
Me	-0.014	0.005	-2.80	0.005
Overcon	-0.099	0.011	-9.04	0.000
Ceonar	0.159	0.076	2.10	0.036
Rem	0.947	0.422	2.24	0.025
Aem	0.541	0.113	2.14	0.032
Bef	0.001	0.001	2.24	0.025
Rest	0.463	0.030	15.42	0.000
Grw	-0.026	0.017	-1.53	0.126
Age	-0.001	0.001	-0.89	0.375
Size	-0.007	0.003	-2.93	0.004
Lev	-0.055	0.065	-0.83	0.404
Mtb	0.009	0.003	2.86	0.004
Hhi	-0.071	0.059	-1.20	0.231
Roa	-0.285	0.103	-2.76	0.006
Ais	0.084	0.030	2.78	0.005
busy	0.145	0.028	5.22	0.000
-con	-0.040	0.156	-0.26	0.794
Weighted Statistics				
Number of obs		1058		
R-SQ		-		
R-SQ2		-		
P-value		Wald chi2(16)=333.59 Prob>chi2=0.0000		

Furthermore, to confirm model (1), the relationship between management characteristics and audit opinion shopping is assessed using the random-effects method. As shown in Table 8, there is a negative and significant relationship between managers' overconfidence and audit opinion shopping based on the random-effects method. This follows the results of the primary method of the study and confirms that because the p-value of that is 0.041 lower than the 5% significance level and their coefficients are also negative figures of 0.005 showing a negative relationship between them. Furthermore, according to the random-effects method, there is a positive and significant relationship between managers' narcissism, real and accrual-based earnings management, and board effort and audit opinion shopping because the p-value of them is 0.025, 0.008, and 0.000, respectively, lower than 5% significance level with positive coefficients of 0.157, 0.214, and 0.078 showing a positive and significant relationship between these variables and audit opinion shopping. According to the results of the random-effects method, the relationship between management entrenchment and board effort and audit opinion shopping is not confirmed at the 95% level. However, at the 90% confidence level, a negative and significant relationship exists between entrenchment and audit opinion shopping. A positive and significant difference between board effort and audit opinion shopping is evident.

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Table 8. The results of the RE testing result model

shop	Coefficient	Std/ Error	t-Statistic	Prob.
Me	-0.044	0.026	-1.69	0.091
Overcon	-0.005	0.002	-2.05	0.041
Ceonar	0.158	0.070	2.24	0.025
Rem	0.214	0.078	2.72	0.008
Aem	0.078	0.019	4.09	0.000
Bef	0.002	0.001	1.90	0.057
Rest	0.400	0.035	11.49	0.000
Grw	-0.021	0.015	-1.42	0.156
Age	0.008	0.004	1.94	0.055
Size	-0.082	0.046	-1.80	0.072
Lev	0.045	0.021	2.14	0.034
Mtb	0.002	0.001	2.91	0.004
Hhi	-0.112	0.069	-1.61	0.108
Roa	-0.107	0.021	-5.10	0.000
Ais	0.095	0.038	2.49	0.013
busy	0.148	0.047	3.11	0.002
-con	-0.056	0.253	-0.22	0.826
Weighted Statistics				
Number of obs		1058		
R-SQ		0.2787		
R-SQ2		0.1860		
P-value		Wald chi2(16)=207.41 Prob>chi2=0.000		

Since the random-effects method results conform with the study's primary method, we can confidently express a significant relationship between management characteristics and audit opinion shopping.

Table 9. T+1 testing result model

shop	Coefficient	Std/ Error	t-Statistic	Prob.
Me	-0.014	0.005	-2.78	0.005
Overcon	-0.014	0.005	-2.72	0.007
Ceonar	0.156	0.055	2.86	0.009
Rem	0.463	0.241	1.92	0.056
Aem	0.057	0.026	2.20	0.028
Bef	0.005	0.003	1.46	0.145
Rest	0.238	0.031	7.55	0.000
Grw	-0.022	0.018	-1.23	0.219
Age	0.007	0.004	1.79	0.074
Size	-0.026	0.011	-2.36	0.018
Lev	0.024	0.013	1.86	0.062
Mtb	0.002	0.003	1.99	0.047
Hhi	-0.005	0.002	-2.05	0.041
Roa	-0.014	0.005	-2.72	0.007
Ais	0.036	0.018	1.99	0.047
busy	-0.014	0.005	-2.81	0.005
-con	0.146	0.163	0.90	0.371
Weighted Statistics				
Number of obs		1058		
R-SQ		-		
R-SQ2		-		
P-value		Wald chi2(16)=72.93 Prob>chi2=0.000		

To confirm model 1, the relationship between management characteristics and audit opinion shopping is assessed using the t+1 method. As shown in Table 9, there is a negative and significant relationship between management entrenchment, managers' overconfidence, and audit opinion shopping the t+1 method. This follows the results of the primary method of the study and confirms that because the p-value of that is 0.005 and 0.007 lower than the 5% significance level. The coefficients are also negative figures of 0.014 and 0.014, showing a negative relationship. According to the t+1 method, there is a positive and significant relationship between managers' narcissism, real and accrual-based earnings management, and audit opinion shopping because the p-value of them is 0.009, 0.028, lower than the 5% significance level with positive coefficients of 0.156 and 0.057 showing a positive and significant relationship between these variables and audit opinion shopping. According to the t+1 method results, the relationship between accrual-based earnings management and board effort and audit opinion shopping is not confirmed at the 95% level. However, at the 90% confidence level, a negative and significant relationship exists between these variables. Since the t+1 method results conform to the study's primary method, except for board effort and accrual-based earnings management, we can express more confidently that there is a significant relationship between management characteristics and audit opinion shopping.

4. Results and Discussion

The hypothesis testing results show a negative relationship between management entrenchment, overconfidence, and opinion shopping. There is a positive and significant association between real and accrual-based earnings management, management narcissism, board effort, and audit opinion shopping. Since narcissistic and overconfident managers pass over their peers in selecting more biased accounting methods to keep the firm value and not lower the firm credit. Campbell, Goodie and Foster. (2004) believe that narcissistic managers are more motivated to obtain favourable results because they strive for more reputation. In general, the present study results in complete Olsen, Dworkis and Young. (2014) and Capalbo et al. (2018) declare that narcissistic managers are more likely to show their performance better using earnings management and illegal actions. Hence, by their short-sighted behaviours, narcissistic and overconfident managers create some negative consequences in the long run (Lakey et al., 2008; Campbell and Miller, 2011). Moreover, the present study results contrast with Rauthmann (2012), who declares that narcissistic and overconfident managers prevent illegal actions to keep their reputation and credit in society. So, they seek those high-quality auditors to report opportunistic management actions in the business firms to show themselves innocent and blame others. According to the studies of Buchholz et al. (2019), Capalbo et al. (2018), and Olsen, Dworkis and Young. (2014), narcissistic and overconfident managers are more willing for moral misuse since they attempt to improve their performance.

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